

TOBACCO CONTROL

AN INTERNATIONAL JOURNAL

Editorials

"Time for a change" in US tobacco tax policy

Tobacco tax increases have been the quickest, most reliable and best documented tobacco control tool used to date. Further evidence on the role of taxation is presented in this issue of *Tobacco Control* in the work of Emont *et al.*¹ By changing the magnitude and structure of taxes on tobacco products, many countries around the world have radically changed both the size and the nature of their tobacco markets. Some have raised taxes for revenue purposes and have seen consumption fall as an unintended (though welcome) accompaniment to the increased revenue. Increasingly in recent times, however, governments have raised tobacco taxes explicitly to cut tobacco consumption, with the revenue gain a beneficial side-effect.

What is puzzling is that, despite the deficit and despite the fact that the US is in the vanguard of countries in other areas of tobacco control, it has bucked the trend on tax. While other countries have raised taxes significantly in real terms, taxes in the US have fallen, almost uninterrupted, for the past 30 years (see figure 1). This is all the more surprising since the bulk of the research on tobacco's price-sensitivity, such as the work by Emont *et al.*, has been done in the US. This body of research has provided the evidence health advocates have needed to argue for health-oriented tax policies in other countries. In Canada, for example, a coordinated effort based on the US research has led to sharply higher taxes and an estimated decline in actual per capita cigarette consumption of 40% in the past decade. In the US the same research seems to have been a victim of legislative blindness. As shown in tables 1 and 2, tobacco taxes in the US are considerably lower than in other wealthy countries, both in terms of the absolute level of taxes and the percentage of the retail price that is accounted for by tax.

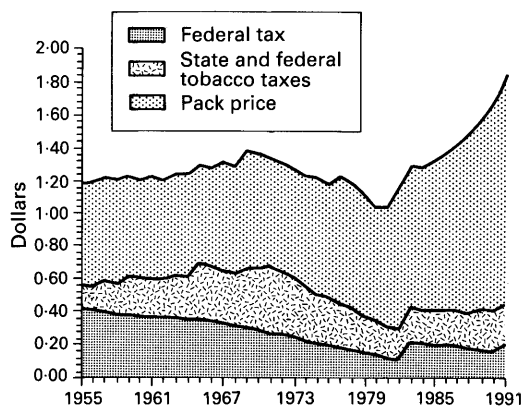


Figure 1 Tobacco prices and taxes: US 1955-91 (in 1991 dollars)

Table 1 Total taxes per 20 cigarettes, expressed in US dollars as of 4 January 1993 exchange rates

Country	Tax per pack (\$)
Canada (highest province)	3.69
Denmark	3.68
Norway	3.33
Canada (average)	3.01
Sweden	2.87
Ireland	2.77
Canada (lowest province)	2.59
United Kingdom	2.52
Finland	2.45
Germany	2.11
New Zealand	1.81
Australia (NSW)	1.38
France	1.37
Italy	1.11
Japan	1.05
US (highest)	0.86
US (average)	0.56
US (lowest)	0.34

Table 2 Taxes as a percentage of the retail price of a packet of cigarettes, estimated as of December 1992

Country	Tax (%)
Denmark	85
United Kingdom	76
Ireland	75
Finland	74
Sweden	73
Germany	72
Italy	72
Canada (highest)	72
France	71
Canada (average)	69
Norway	68
New Zealand	68
Canada (lowest)	67
Australia	60
Japan	60
US (highest)	40
US (average)	30
US (lowest)	20

There are many reasons why taxes on tobacco in the US are still so low. The tobacco lobby has regularly beaten those seeking to increase these taxes, while rapidly raising its own prices and greatly increasing its profits. It has managed to make tobacco tax increases seem undesirable, e.g. as threats to the poor or attacks on tobacco farmers, and the health side has failed to make the health case for substantial tax increases strongly enough. Though all of industry's arguments can be adequately addressed by health advocates, the tobacco lobby response is to simply turn up the volume of its public relations machinery and pump up its political muscle.

One of the arguments the tobacco industry has pushed very hard in recent years is the fear of interstate traffic in cigarettes if any state increases its tax. In its most lurid

incarnations, tobacco tax increases have been portrayed as putting money straight into the coffers of organised crime. The research done by Kleine, also reported in this issue,² puts the lie to this position, showing that interstate smuggling has become far less of a problem in recent years.

There is a serious tobacco-smuggling problem involving the US but it is not between states. It is between the US and Canada. With taxes so low in the US, it has become lucrative for Canadian-based tobacco companies to ship huge quantities of cigarettes across the border only to have these re-enter Canada through cross-border shopping and smuggling. Per capita, *legal* cigarette sales in Canada have fallen by 50 % in the last decade. The difference between that figure and the 40 % decline in *actual* per capita consumption is due to cross-border traffic and means that the tax policies of the US are undermining the health policies of Canada.

The election of Bill Clinton as President of the US offers new opportunity to raise tobacco taxes in the US. His administration says it believes in harnessing market forces to cut pollution of water and air. Higher tobacco taxes offer the opportunity to harness those same market forces to cut the pollution of lungs and hearts by tobacco smoke. The substantial revenues that raising federal taxes to world levels would generate could make a sizable dent in the federal deficit, or fund more available health care. The new administration offers the chance for a change if health advocates are prepared to go out and make the case. Other governments have heard the case, have been convinced, and have acted. There is every reason to think that this could happen in the US now.

A large increase in the federal tobacco tax in the US would be among the most significant developments possible in global tobacco-control efforts. It would greatly assist in the reduction of tobacco sales across the US and reduce the price differential between states so as to make large state tax changes easier to implement. Furthermore, the benefits would not be confined to the US. A strong US lead would boost the efforts in other countries to raise taxes, and it would greatly benefit our efforts in Canada if the "southern loophole" were effectively blocked.

There is potentially another advantage. Substantial rises in taxes in the US would reduce the potential of the tobacco companies there to make such extraordinary high

profits. These profits provide much of the political muscle of the industry in the US and abroad, and finance the efforts of the multinationals to expand into less developed countries. Reducing political clout and slowing the pace of the industry's international advance would be a major contribution to world health.

Regardless of the prospect of raising taxes federally, there is reason to believe that we might soon be seeing many more states increase their own tobacco tax levels. The interest at the state level should be greatly increased by the recent success of Massachusetts, where a coalition of health groups led by the American Cancer Society won a tax increase by public referendum (54 % to 46 %) after a highly visible fight with the tobacco lobby. The research work of people such as Kleine and Emont and their co-workers is a valuable addition to the body of knowledge on tobacco pricing and consumption patterns. There is now sufficient scientific information upon which successful efforts have been, and future efforts can be, based. There is also a need for more information to help us develop the role of tobacco taxation policies in tobacco control activities. The priorities for the US for this research were outlined in the Report of the Tobacco Policy Research Study Group on Tobacco Pricing and Taxation in the United States, published in the September 1992 supplement to *Tobacco Control*.³

DAVID SWEANOR

Non-Smokers Rights Association
Ottawa, Ontario, Canada

According to the 22 February 1993 issue of Time magazine, "(President) Clinton very much intends to propose higher excise taxes on liquor and tobacco and a new tax on generous health-insurance benefits provided by employers to their workers. But he will not suggest these important, big-money items this week. Instead, he is saving them to offset what could otherwise be the budget-busting costs of health-care reform". — ED

1 Emont SL, Choi WS, Novotny TE, Giovino GA. Clean indoor air legislation, taxation, and smoking behaviour in the United States: an ecologic study. *Tobacco Control* 1993; 2: 13-17.

2 Kleine R. The declining role of interstate cigarette smuggling in the United States. *Tobacco Control* 1993; 2: 38-40.

3 Sweanor D, Ballin S, Corcoran RD, Davis A, Deasy K, Ferrence RC, Lahey R, Lucido S, Nethery WJ, Wasserman J. Report of the Tobacco Policy Research Study Group on Tobacco Pricing and Taxation in the United States. *Tobacco Control* 1992; 1 (suppl): S31-S36.